

A Review and Report on the City's Economic Vitality

Submitted to Mayor Frank Jordan
and the San Francisco Board of Supervisors

March 1994

[San Francisco Chamber of Commerce]

INSTITUTE OF GOVERNMENTAL
STUDIES LIBRARY

MAY 5 1994

UNIVERSITY OF CALIFORNIA

Background

For the third consecutive year, San Francisco is facing a dramatic budget shortfall for fiscal 1994-95. Surpluses and one-time funding sources are no longer available, making it all the more obvious that the budget has a deep and pervasive structural deficit that must be overcome by sound management and bold leadership. But the challenge facing San Francisco is much larger than overcoming next year's budget gap: the challenge is overcoming the structural deficit for the long term.

Like all San Franciscans, the business community views the city's fiscal picture with increasing concern. As residents, we look to the city to provide services that are critical to the well-being and overall quality of life for all San Franciscans. As employers and entrepreneurs, we look to the city to develop and implement policies and practices that set the stage for economic growth and job development, which in turn generate tax revenue to fund city services. Left unsolved, the ongoing budget crisis threatens to further stymie the city's economic well-being and undercut the quality of city services.

In February 1992, representatives of San Francisco's business community presented Mayor Frank Jordan and the Board of Supervisors with "Governmental Goals, 1992," an 11-page document which outlined our view of the direction city government should take on selected issues to protect and increase jobs. Inherent in the document were three basic principles:

- **The City Needs To Live Within Its Means:** City expenditures have consistently outpaced revenues in recent years. Closer inspection by the City's Budget Analyst, the Controller, the Mayor's Fiscal Advisory Committee and others has repeatedly shown these increases could be sharply curtailed through management measures that make cost efficiency a priority. City residents deserve to know their money is being well spent before they are asked to pay more with higher taxes or are asked to settle for less with reductions in the scope or quality of city services.
- **Job Growth Is Key To Quality of Life:** Economic vitality—the city's ability to retain and attract business and create new jobs—produces employment opportunities and generates critical tax revenue to fund local government services. Economic vitality is the engine that fuels the city's high quality of life.

San Francisco businesses pay the highest business taxes in California and among the highest in the country. Further tax increases will discourage business and job growth, eroding a critical source of city revenue.

- **Structural Reform Is The Bottom Line:** San Francisco's continued fiscal problems underscore the growing consensus that whatever is done in the short term to balance the budget is not the answer. What the city needs is basic, structural reform of how it is organized and operates at all levels. The first step in this process is the reform of the City Charter to make it a blueprint for truly effective governance.

Following the presentation of "Governmental Goals, 1992" to local officials, the business community remained involved in the governmental process. A primary goal was identifying constructive solutions to the city's fiscal crisis. Representatives of the broader business community participated in the Joint Task Force to Resolve the City's Fiscal Crisis and in the Business/Labor talks coordinated by Mayor Frank Jordan. In addition, representatives of the broader business community have met regularly over the last two years to develop informed opinions on key issues affecting the city budget and to actively communicate those opinions to city leaders, the business community and the general public.

Two years after the creation of "Governmental Goals, 1992" the business community remains committed to the above principles. As a show of our sustained commitment and involvement, we have evaluated the city's response to the priority areas outlined in "Governmental Goals, 1992". Our evaluation is attached and is divided into the following categories:

- (1) Effective and Accountable City Government
- (2) Taxation
- (3) Economic Vitality

These are issues on which we will continue to place a high priority and continue to work to build community and political consensus.

I. Effective and Accountable City Government

Overview

Central to the resolution of the city's structural deficit is the delivery of efficient public services that enhance the quality of life for all who live and work here, assuring their health, safety and general well-being in an economic climate that promotes jobs and opportunity. Providing for the delivery of efficient public service requires innovative ideas and new approaches. All options must be explored. The need for urgency is underscored by the fact that city expenses continue to outpace revenue. City officials are projecting a \$100 million shortfall in the city's 1994-95 budget, of which \$67 million is due to salary increases mandated by the City Charter and labor contracts. The result is that the city is in a position of funding its higher labor costs at the expense of other city costs, which almost always means a reduction in programs or services. This is not acceptable.

Status

Perhaps the most significant action to contain escalating labor costs over the last two years was the passage in November 1993 of Proposition L, which centralizes the city's employee relations function into a single Department of Human Resources. Prop. L promises to cut costs by reducing redundancy and providing for better administration of workers' compensation claims. Further, we applaud efforts to realize much-needed cost savings in the city's workers' compensation program and to make San Francisco General Hospital a more cost-efficient provider of services, while still maintaining its primary objective of serving those without access to other medical care. We also applaud instituting a "zero-based" budgeting procedure as part of the city's overall budget process, starting with the largest departments for the fiscal 1994-95 budget year.

Unfortunately, there was very little other evidence of steps taken to give the city more effective delivery of services. Despite warnings from its financial officers, including the Budget Analyst and the Controller, the Board of Supervisors in June 1993 let stand an arbitrated 5.5 percent pay increase over three years for 10,000 city workers.

Additionally, in October, the Board voted to block a plan to contract out the city's senior escort program as a way to expand services at a reduced cost.

Further, the Mayor has been unable to bring about promised reductions in the size of the city's work force, leaving San Francisco with a payroll that between 1965 and 1990 grew by almost 60 percent despite a relatively small increase in the city's population.

Recommendations

San Francisco's fiscal problems demand city government change the way its does business. Ensuring a program delivers services at the best price must become a priority for city leaders. The need for, and effectiveness of, city services and programs must continually be evaluated, and city leaders must consider contracting out for services which could be delivered more efficiently and cost-effectively by private sources. The city must establish benchmarks for acceptable cost and quality levels and take the steps necessary to achieve them (e.g., quality assurance program). Equally important is ensuring an efficient and productive city work force. We continue to support a managed reduction of the city's labor force, spread over several years and using attrition to the greatest degree possible, facilitated where necessary by increased flexibility in administrative procedures and work rules.

II. Taxation

Overview

San Francisco continues to have the highest business taxes in the state and among the highest in the country, hampering the city's ability to attract and retain jobs and business. Over the last several years, as the city's fiscal situation has worsened, local officials have increasingly supported increased business taxes as a way to fund deficits. Business taxes now generate 64 percent of all local tax revenue, excluding property taxes. San Francisco cannot afford to make itself less competitive than it is now in the search for new jobs and businesses. It cannot afford to further tax its businesses. Between the years 1990 and 1992, the city lost 30,000 jobs, or 5.2 percent of its total work force. High business taxes serve as a disincentive to job growth because they contribute to the already high cost of doing business here and create an anti-business climate.

Status

The last two years has seen an increasing tax burden on several sectors of the city's economy. Last year, Mayor Jordan proposed and the Board adopted extending the payroll/gross receipts tax—a direct tax on job creation—to the city's smaller businesses. The city also adopted increases in the hotel tax, the commercial utility user's tax and the

gross receipts tax on rental and leased autos. In addition, the city initiated a cellular phone tax, a 911 tax, and a tax on interstate and international commercial telephone calls.

Recommendations

San Francisco cannot continue to increase the tax burden on its businesses and expect to foster a vital economic base that generates jobs. Priority must be given to creating a tax structure that promotes economic vitality and does not create disincentives to job growth. We continue to urge local elected officials to oppose increases in the payroll/gross receipts tax and to rescind the extension of this tax to small business owners. Similarly, we urge no further increases in the small business registration fee, license fees, or the hotel occupancy tax. In addition, the city must improve procedures to collect tax revenue already owed it.

III. Economic Vitality

Overview

Economic vitality, or the ability of San Francisco to retain and attract business and create jobs, is an issue that crosses all boundaries to encompass all city residents. Economic vitality provides employment opportunities and income for workers to provide for themselves and their families. Economic vitality generates critical tax revenue needed to fund local government services. Economic vitality in San Francisco encompasses many issues. Key issues include transportation, construction and economic development.

Status

There has been progress on several of the city's key transportation issues: a downtown commuter rail station, the Embarcadero project, the extension of BART in the East Bay and the Peninsula and the retrofit of I-280. Progress is also being made on improving access to the city from the Bay Bridge with an effective connection between the Bay Bridge and the Embarcadero. There has not, however, been progress in the operation of the Municipal Railway, the hub of San Francisco's "transit first" policy. Muni's costs continue to escalate, while the quality of service deteriorates.

In the area of economic development, the city saw the opening of Yerba Buena Center, the ground breaking for the airport expansion and the development of the UCSF cancer center near Mt. Zion Hospital, among other projects. City leaders have given top priority

to retaining U.C.S.F., San Francisco's largest employer, and have helped to foster San Francisco's burgeoning multimedia industry. In other areas, the Board of Supervisors approved a proposal to temporarily lift the payroll/gross receipts tax for those businesses creating new jobs in the city. San Francisco's greatest weaknesses in fostering economic growth remain (1) the continued absence of a long-term economic plan that encompasses the needs of San Francisco's diverse communities and (2) the lack of strong collaborative leadership among business, governmental and community groups committed to achieve common goals.

The city's permit review and approval process has long been cited as a hindrance to economic development. The Mayor has made this area a top priority and his focused management has produced needed benefits. Still, the city's code continues to be both overly complex and subject to repeated and often conflicting interpretations, during both the approval process and in the field.

Recommendations

Economic vitality is key to the city's future as job creation and economic growth fuel the city's quality of life. At a time when the city is experiencing job losses, it is all the more important for city leaders to consider the economic ramifications of their policy decisions. First and foremost, the city must adopt a policy in support of job creation and job growth in the private sector. City leaders must then work to implement that policy. Also, mechanisms must be developed to evaluate the cost and effectiveness of commissions, regulations, fees and other city mandates and measures must be established to mitigate their negative impact on job creation.

Further, renewed efforts must be made to:

- expedite transit programs affecting the city's major corridors;
- identify and aggressively pursue an economic development plan to create job opportunities for all San Franciscans;
- maximize the opportunities presented to San Francisco by the planned closures of the Presidio and Treasure Island military bases;
- ensure the city's permit and approval process becomes more dependable and predictable.

Conclusion

The challenge to balance the city's needs against its ability to pay has never been greater. San Francisco's future depends on solutions that foster economic growth and job creation. We, as a united business community, re-iterate our pledge to remain actively involved in the process and to work with city and community leaders and citizens throughout San Francisco to make San Francisco both a better place to do business and a better place to live than it is today.